

Message Text

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PAGE 01 BONN 02015 051746Z

51

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

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R 051737Z FEB 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7750

INFO AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

UNCLAS BONN 02015

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: TAX REFORM BACKFIRES

1. SUMMARY. THE GOVERNMENT'S INDIVIDUAL INCOME TAX REFORM WHICH CAME INTO FORCE ON JANUARY 1, 1975, IS TURNING OUT TO BE SOMETHING OF A POLITICAL BOOMERANG BECAUSE MANY RELATIVELY LOW AND MEDIUM INCOME TAXPAYERS ARE FINDING THAT ACTUALLY MORE RATHER THAN LESS TAXES ARE BEING WITHHELD FROM THEIR PAYCHECKS. END SUMMARY.

2. DESPITE THE WIDELY ADVERTISED DM 14 BILLION TAX CUT INVOLVED, MANY GERMAN TAXPAYERS HAVE FOUND THAT WITH THE COMING INTO FORCE OF THE TAX REFORM LEGISLATION THEIR TAKE-HOME PAY HAS ACTUALLY DECREASED BECAUSE THEIR WITHHOLDING TAXES HAVE BEEN INCREASED. IN PART THIS IS DUE TO CHANGES IN THE WITHHOLDING

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PAGE 02 BONN 02015 051746Z

SYSTEM TO CORRECT PREVIOUS UNDER-WITHHOLDING. BUT IN

ADDITION A NOT FULLY FORESEEN OVER-WITHHOLDING NOW SEEMS TO BE TAKING PLACE PARTICULARLY IN THE CASE OF HUSBANDS AND WIVES BOTH OF WHOM ARE WORKING AND OF TAXPAYERS HAVING SUBSTANTIAL DEDUCTIONS FOR INSURANCE PREMIUMS, TRANSPORTATION COSTS, DEPENDENT SUPPORT, RESIDENTIAL DEPRECIATION, ETC.

3. THE PROBLEM IS FURTHER EXACERBATED BY THE FAILURE OF MANY TAXPAYERS TO TAKE THE STEPS NECESSARY TO PLACE THEMSELVES INTO THE PROPER (LOWER) WITHHOLDING CATEGORY WHICH IS BEING GENERALLY ATTRIBUTED TO INSUFFICIENT EFFORTS BY THE GOVERNMENT TO PUBLICIZE THE NEW SYSTEM.

4. JANUARY PAY CHECKS ARE FURTHER REDUCED BY HIGHER CONTRIBUTIONS TO THE UNEMPLOYMENT, HEALTH AND SOCIAL SECURITY INSURANCE SYSTEM AND BY THE FACT THAT PREVIOUS TAX DEDUCTIONS FOR CHILDREN ARE NOW REPLACED BY CASH PAYMENTS WHICH ARE MADE BY PUBLIC AUTHORITIES SEPARATELY FROM THE TAXPAYERS PAY CHECK.

5. THE OVER-WITHHOLDING OF TAXES COULD SIGNIFICANTLY REDUCE THE STIMULUS TO THE ECONOMY OF THE TAX REFORM DURING 1975. GOVERNMENT ESTIMATES ARE NOT YET AVAILABLE, BUT ONE OF THE PRESSURE GROUPS CLAIMS THE OVER-WITHHOLDING MAY AMOUNT TO AS MUCH AS DM 5 BILLION.
HILLENBRAND

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